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UNFORESEEN TIMES: IMPACT ON IND-AS BASED FINANCIAL REPORTING

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ABSTRACT: *This study is about the uncertainty caused by many unforeseen events that happened in the recent past which caused the corporates to go under the acid tests multiple times. Mainly the unforeseen events were COVID-19 Pandemic, the Ukraine-Russia struggle, and fluctuations in the economy caused the Growth rate to swing. All these were the reason for financial, operational, and other ambiguities. These times were very crucial and generated problems and jeopardies, especially for the corporates. Problems such as the non-availability of the labour force and lack of demand for the products caused a disturbance in the operations, it also caused instability situations which was scary for most of the Corporates. Any Company, whichever Industry it belongs to got affected by this uncertainty. Transparent and Clear Financial Reporting was a tough task for the Corporates especially when there was ambiguity in the amounts of Expenses, uncertainty in recognition of Revenue, and valuation of Liabilities and Assets. There was a lack of funds issues and complete chaos caused a question-mark situation for many companies whether they could survive the business in the future or not.*

Financial Reporting in such a dreadful situation was a task as not only it demands the fair valuation of all the elements of financial statements but also it asks for additional disclosures of contingencies. As per Ind-AS, it is mandatory for the Corporates to give clarifications on the uncertain times and their *probable impact which may cause a considerable impact on the Company's solvency position. This review throws some light on this entire situation.*

Key Words: Financial Reporting, Unforeseen Events, Impact, Uncertain Times, Ind-AS

INTRODUCTION: The most significant link between the Company and its Stakeholders is Financial Reporting. The aim of Ind-AS based Financial Reporting is to share with the outside world, what is happening inside the company. Unforeseen events like a pandemic, war, and economic fluctuations cause difficulties in the process of Financial Reporting. In the recent past, such events were happening and it caused serious effects on every aspect of the Businesses. Sudden changes in the overall functioning of the business were causing a lot of information to be shared with the stakeholders in the form of Disclosures as compared to the previous period's reporting. Provisions of Ind-AS require comprehensive disclosures on every aspect of the businesses. Providing appropriate information which is pertinent to the stakeholders is a tough test in unforeseen circumstances. There were some amendments/ changes made to the provisions and concepts of Ind-AS to coup up with these tiring times to enhance transparency in Financial Reporting.

OBJECTIVES: The following are the objectives:
i) To analyze the bearing of unforeseen events on the Financial Reporting of organizations.
ii) To analyze the post-pandemic changes made in the Ind-AS for transparency in Financial Reporting.
iii) To analyze the impact on Financial Reporting Disclosures.

RESEARCH METHODOLOGY:
This paper is constructed on the facts gathered through varied Secondary resources. Secondary data have been applied to analyze the impact of various events. Reports and research Articles have been referred from RBI, Big Four Research, Other Research Study Reports by top consultancy Firms, Business Newspapers, Journals, Annual Reports of various Companies, and Audit Reports.

LITERATURE REVIEW:
(Chaudhary et al.,2020) This work studies the consequence of COVID-19 over the formation of strategies and other plans for various sectors. The study

discusses the industry-wise impact on overall growth, revenue production, changes in the quantum of capital, and development opportunities. It assesses the outcome of COVID-19 over the position of Financial-standings of various Corporates under different sectors.

(KPMG, 2022) The study states how varied companies face problems as an aftereffect of peripheral factors and changes in those. This study is about the Financial Reporting company reporting in the middle of the reporting period like quarterly or semi-annually. It is about the disclosures and the allied changes required because of the changes in the situations and proceedings. It throws light on varied elements of financial reporting.

(Iyke et al., 2021) This paper throws light on the policy changes and the effect of the situational changes on productivity and so as to the factorial impact on the Reporting. It talks about the changes in the responses as an effect of change in the varied policies because of COVID-19.
They found that apt changes in the policies lead to overall growth.

(Brennan et al., 2022) This paper talks about the disclosure changes as a result of COVID-19's impact on the company's viability especially in cases of losses. The paper studied the reporting quality of various companies as an after-effect of the pandemic in terms of offering additional disclosures to the stakeholders in case of losses.

(RSM India, 2022) This paper is about the trouble created because of the COVID-19 pandemic followed by war effects on the businesses and ultimately on the financial reporting and disclosures of the corporates. This talks about various areas where it throws some light on the elements which require judgment and decision-making for the better quality of the reporting for the benefit of stakeholders.

FINDINGS AND DISCUSSION:

This review is studying the after-effects of sudden events on the Ind-AS based Financial Reporting. The unforeseen events mainly happened were COVID-19 Pandemic, Ukraine-Russia unrest, Sudden fluctuations in the economy, etc.

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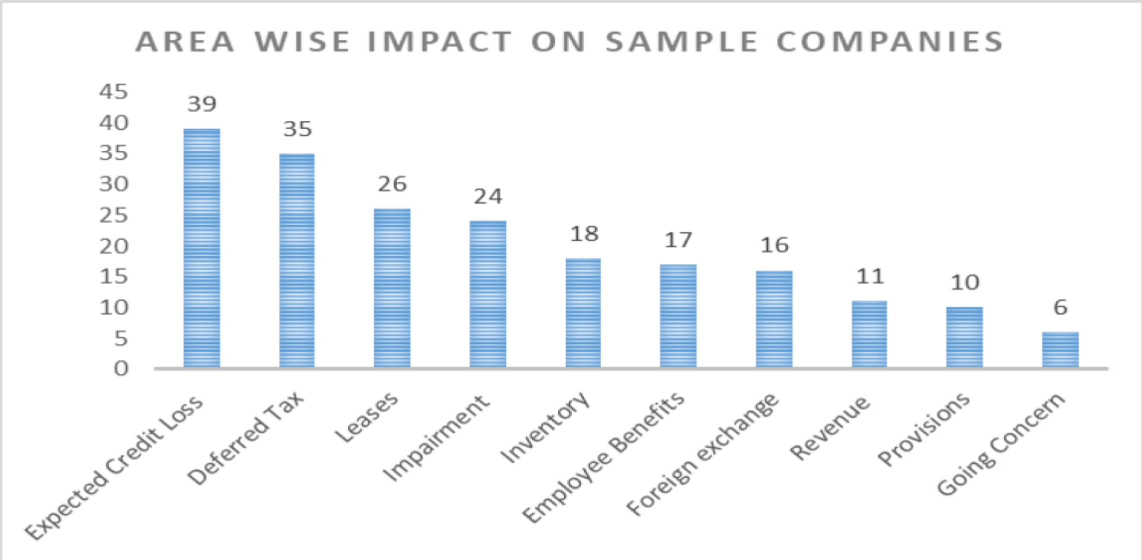
There was a detailed analysis by RSM Consultancy Firm on the Sector-wise impact of the
pandemic by considering various factors depicted in the Graph below:

The following chart provides the number of sample companies (out of a total sample of 43 companies) that disclosed the impact of various accounting areas:



Source: RSM Research Analysis 2021, RSM Publications

ASSESSMENT OF GOING CONCERN:

It is mandatory for Companies to prepare Financial Statements by assuming the Going Concern Status of the Organization for the foreseeable future. When the time is unpredictable because of some unforeseen events mentioned above, it is challenging for the Companies to predict the situation positively. As analyzed in the RSM report above, it is critical, especially for Companies in the industries like Real Estate, Airlines, Hotels, etc. as the nature of these businesses is highly prone to the situation and may cause instability in times of unpredicted events. Indian Accounting Standards have not detailed how to evaluate the situation and how to deal with it while predicting the going concern assumption. In such a situation the companies need to take care of the evaluating the following factors prudently while reporting:

The degree of interruption caused to the overall operations;

The existing and expected Current Liabilities;

Factors affecting the Operating Cycle management and allied funds availability;

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Certainty of existing and expected sources of financing and financial aid available.

In addition to the above, Companies need to give additional disclosures of material uncertainties predicting the going concern assumption while reporting on the above factors.

RECOGNIZING REVENUE FOR THE TIRING TIMES:

Ind AS-115 is about recognizing revenue for the period in your books. During the pandemic time and post that was so frightful that all the areas of businesses were interrupted terribly. The most important element, 'Revenue' got the worst impact reason being, everything went standstill and there was no clue how to record sales which were negligible amount. The entire revenue got deformed. The corporates selling FMCG were facing the issue of irregular sales and also their refunds were hampered badly. The impact on the event management companies was awful. As most of the programs and events got cancelled. Airline companies also faced bad music, the reason being cancellations and rescheduling of innumerable flights. It was hard to take note of refunds and returns and allied liabilities for the dangerous period. For real-estate businesses like civil construction and engineering organizations where these corporates recognize sales based on the method of proportionate completion, it was just unpredictable as to when there will be normal times to provide and complete the services and accordingly when to recognize the revenue in the books and how much time to get it back to the normal times. The unprecedented delays caused huge costs but these were to be expensed off in the regular Profit and loss account and these companies could not charge it to the contracts as there were no nexus between the various contracts and delays. Many contracts and orders got revamped and repriced and it was again added the task of reassessment to those who were responsible for governing these contracts. The assessment involved the effects of all these newly formed contracts and their allied impact on the revenue as well as on the liabilities to be reflected in the books for these periods.

REVAMPING EMPLOYEE-RELATED COSTS:

The pandemic and other unforeseen events caused businesses to worry about their costs.

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VIVA IMR International Journal of Management
Vol. 02 (01), JUL 2023, pp.60-72

Companies opted for various countermeasures to curb various costs, most importantly Employee related costs. Starting with the downsizing of the number of employees to provisional deferment in the employment of a few employees with salary to be paid in a deferred manner to retain those employees. Another option opted by many Companies was to offer the Scheme of Retirement Voluntarily. The last option opted by the Companies was to outright discontinuance of employment on payment of some compensation. Essential for Companies is to measure the Liability at the fair value of the compensation to be paid on the date of Communication. Overall in all cases, Companies have to determine the employee costs which was planned to reduce the expenditure under this head by offering various cost-cutting gimmicks. Ind AS-19 will guide about the date when there is an affirmation of the proposal and it will be a concrete proposal that cannot be reversed after that. Also, Ind AS-37 offers the details regarding the obligation of the company towards this termination plan. Recognizing liabilities in these tiring times was a hard-hitting test that the companies had to go through.

RENT AGREEMENTS-LEASING

Enormous losses were caused due to uncertain times and events. Companies were under tremendous pressure because of a cashflow crunch. Obviously, lessees asked for extensions/ forfeiture/ allowance on the payment of rent. Possible alterations in the agreement they were expecting a discount in the amount of Rental at least once or even for extended periods, also demanded alterations in the terms of the agreement to convert fixed into flexible outflow.

These various terms were not initially part of the arrangements hence these adjustments necessitate the lessee and the lessor both to reassess the related liabilities and assets and income respectively for the balance term of the leasing arrangement. Ind AS 116 offers discretion for the benefit of Lessee that the alteration to be made under such unforeseen times was to be considered as modifications in the lease arrangement. But only after fulfilling the required conditions and due disclosures of the same Lessee companies were allowed to claim these optional benefits. As reported by RSM, companies, especially from the Hotels, Retailing, and Media segments chose to go with these discretionary benefits.

WRITING DOWN INVENTORIES:

Ind-AS on Inventories requires writing down Inventory at the Net Realizable Value if there is a prediction that the Net realizable value would be lesser than that of Cost in the period to come. In the dreadful situation of unforeseen events happening, writing down the inventories may be required as there would be sluggish inventories, and outmoded inventories as the sales were decreasing to the unpredicted lower levels. As compared to the service Companies the companies which are manufacturing companies hampered the most in times of pandemic, war situations, or even when there is economic uncertainty. The issues were lack of labour availability for work, and receiving the raw material on time was tough to achieve in the tiring times. These caused an unprecedented lag in the production cycle. In such a case the allocation of other fixed overheads to inventory was not advisable to keep the inventory cost under control. There was no other option than to charge these costs in the Period Income statements.

ASSESSMENT OF LOSSES DUE TO IMPAIRMENTS:

The pandemic created havoc in terms of causing losses and impairments to assets. Ind AS-36 talks about Asset Impairment, the impairment indicators, and the required accounting treatment to be reflected in the Financial Statements with allied Disclosures. While assessing these losses prediction of future cash flows is one of the crucial factors. Hence in the tiring times of pandemic and war situations, it was tedious to make the required predictions and there were many ambiguities regarding the same. Also, another important aspect to be assessed is the fair value of these assets which was another hard-hitting chore as there was a question mark for the market availability for certain assets.

Corporates especially in the field of Hotels & Tourism-Travels there were massive financial losses and these corporates were not in very good shape as a consequence of the pandemic outburst. The pandemic outcome was so dreadful that various other fields were also hit the hard impact. Many producers of goods shut down their operations, and the logistics of the distribution of goods were disrupted miserably creating further troubles, there were uncountable issues in the overall operations including the worst impact on the export operations. Also, Corporates faced an enormous impact of calling off contacts, and orders only resulted in bearing losses in the form of penalties.

THE IMPACT ON DTA/DTL- DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES:

In Sept 2019 there was a major change in the Income Tax Laws and these alterations fetched considerable variations to the Company’s Taxation matters.

Indigenous corporates had given the discretion of lower rate taxes payment only after fulfilling stated terms. Also, that these corporates had to forgo a few reliefs and allowances as provided by the altered enactment.
Accordingly, companies choosing to go with these concessions had to assess DTA/DTL as per the reduced rates of taxes.

CONTINGENT LIABILITIES/ PROVISIONS AND INSURANCE IMPACT:

The liabilities and provisions to be made in the books are extremely important aspects of any financial reporting. Dreadful events like the COVID-19 pandemic, war, and instability in economic growth caused ambiguity in the overall scenario. This resulted in confusion regarding the recognition of liabilities that got cancelled because of the pandemic but only with the add-on cost in the form of penalties for cancellation of the events. Ind AS-37 offered guidance on the same as these add-on costs were required to be shown as liabilities despite the provisions suggesting otherwise.
Loss of Profit Insurance, Employee layoff, and Other interruptions in the Businesses are very crucial at these unwarranted times. The cost saved as a result of these crucial Insurance policies had to be disclosed and presented separately in the Financial Statements. This was to get the users the idea of losses and also to make them aware of the importance of Insurance costs and benefits. These settlements revealed another picture of losses which were otherwise could have caused disaster in the absence of these protections. Very essential to share the full disclosure in the financial statements about the same.

REARRANGEMENT OF LOANS AND DEBT:

Cash flow predictions were difficult in these frightful times. Most of the Corporates were facing liquidity and allied cash flow crunch issues during then. They were under continuous pressure of being termed as non-performing assets for the banks and financial institutions from where these corporates availed financing and failed on their EMIs. These corporates asked for extensions in payment terms, relaxations, and discounts on the interest rates charged for this period. Furthermore, they asked for revised covenants to be formed for the already availed loans and debts. Badly impacted organizations even asked for the partial and complete waiver of stringent conditions in case of failure on their part to fulfill the stated conditions in the loan and debt agreement. But these caused a sizable impact on the picture reflected in the financial statements and the related disclosures.

Especially the small entities where the pandemic had the wickedest impact were under the stress of categorizing under NPAs. Banks and Financial Institutions requested liberation in the norms for the provisioning and classification of financial assets. They wanted the badly hit impacted picture of financial statements to cover up. Many arrangements went on revamping the covenants and reformation of those contracts. Almost all the contracts got revamped in some or other forms such as discounted interest, alterations in the terms of payment, extensions for fulfilling the covenants, etc. Ind AS-109 provisions guided to reflect the true picture of resources for moneylenders and to show real obligations for the debtors. These resulted in further losses for the lending companies and relief for the borrowing companies.

THE COST OF BORROWING AS PER IND-AS:

The huge borrowing costs incurred during the time of the pandemic, as per the guidelines issued by RBI as well as MCA it was decided to suspend the capitalization of these costs of borrowings. Certainly, this decision had the worst impact on the capitalization figures further it added to the huge losses because of expensing off the huge costs.

ECL AND ITS IMPACT ON THE DISCLOSURES OF FINANCIAL ASSETS:

Ind AS-109 guides about the ECL-the Expected Credit Losses and their effects on the financial Assets in the books. The concept of ECL is mainly based on the chances of any possible results in the form of probability assessment. During these unprecedented times assessing the risk involved and evaluating the chances of failure were tiresome affairs. Furthermore, post- pandemic there were fluctuations in the growth rate, and the effects of war also created added issues in the predictions. For this purpose, there were enormous difficulties in assessing various elements such as assessing futuristic large financial factors, Default chances, and Financial Assets assumed losses. The situation resulted in forever losses predictions that were unsolvable.

DISCLOSURES AND PRESENTATIONS OF UNPRECEDENTED EVENTS AND THEIR DREADFUL IMPACT:

The core drive of Ind AS financial reporting meant to provide maximum information for the stakeholders so that they may make informed decisions for the period to come based on the intel provided through comprehensive financial reporting. Those responsible for governance shoulder the responsibility of sharing all the vital information and the basis on which it is based.

Undoubtedly it was a terrible chore to state any fact and the source of it with utmost confidence that the estimation was based on some concrete elements in the unpredicted times. All the presentations and disclosures were based on assumptions and conditional fulfillment of events that were beyond predictions. Moreover, the information had its limitations to convey the true picture as the picture was truly blurred. Hence, corporates also clearly voiced that the consequences may be dissimilar to what they predicted depending upon the next period's situation may result in further adjustments in the figures of all the assets, liabilities, Income, and expenses.

CONCLUSION & SUGGESTIONS:

The pandemic, war situation, and unprecedented changes in the growth rate caused a sizable impact on the financial statements. It was a dreadful time and still, its repercussions are showing a bad post-impact picture in terms of not-so-exciting financial statements.

It is a time to carefully evaluate the situation by looking into short-term and long-term factors which may give rise to the betterment of the overall picture for financial statements. It is an image-building time when the corporates have to catch hold of the existing conditions and work on the revamp for an overall win-win situation.

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